 69.5661

Personnel 11-2

OGC 69-2330

MEMORANDUM FOR: Director of Central Intelligence

SUBJECT: Establishment of a Voluntary Employee Savings and Investment Program

1. This memorandum contains a recommendation in paragraph 17 for the approval of the Director of Central Intelligence.

2. The special task force authorized by the Executive Director-Comptroller to develop a plan for a voluntary employee savings and investment retirement program has developed such a plan which is described below and in the attachments.

Development of Program

3. Since 4 October 1968, the task force and its predecessors have investigated the kinds of tax exempt retirement and savings plans available and the experience of many plans in effect in other organizations. Particular attention was devoted to the TAKE STOCK Plan of the Tennessee Valley Authority which, as far as can be determined, is the only voluntary investment plan sponsored by a U. S. Government employer. Two visits were made to TVA in Knoxville, Tennessee, and TVA's retirement board permitted us to examine their program in detail.

4. For advice on investments the task force has consulted two New York Stock Exchange member brokers, officers of Bankers Trust Company in charge of pension trusts, the Senior Vice-President (Investments) INA Corporation and INA officers in charge of pension trusts and mutual fund distribution, the investment advisory and mutual fund management firm of Scudder, Stevens and Clark, and the Chairman, Presidents and senior staff of the Fidelity Management and Research Company and the Crosby Corporation, their wholly owned mutual fund distributor.

5. The OCS member of the task force and an Office of Finance representative have examined the accounting program of the TVA plan and are satisfied that a satisfactory accounting and computer program can be developed by the Agency. Legislative Counsel has briefed the staff chiefs of all four CIA subcommittees, and they foresee no objection to the program. The OGC member of the task force has consulted the Chief, Pension Trust Branch, IRS, who sees no problem in qualifying the type of plan we propose. The Office of Security has no objection to the proposal provided that the identities of members of the plan are not disclosed outside of the Agency. This requirement can be met with little difficulty.

Description of Plan

6. Drafts of the proposed trust and plan are at Attachment A. This is an internally trusteed plan like that of TVA. Six trustees will be appointed from among Agency employees by the Director. The trustees bear legal responsibility for operation of the plan and investment of the members' contributions. Investments are owned by the trust for the benefit of the members who hold units in the trust. Expenses are borne by the Agency except that sales commissions and investment management fees are paid by the members through charges deducted from each investment and from the net assets invested. CIA may terminate the plan at any time.

7. Participation in the plan is limited to U. S. citizen employees who have at least three years of Agency service and who are members of the Civil Service or CIA Retirement Systems. Members of the retirement systems are the vast majority of Agency employees, but this requirement will eliminate most short-term or temporary employees. The three-year service limitation is included to reduce the administrative burden by excluding those employees among whom turnover is greatest. The citizenship requirement will eliminate tax and security problems which inclusion of aliens might cause.

8. While the board of trustees will be responsible for investment of members' contributions, they are limited to investment in specified mutual funds or short-term U. S. Government securities and, thus, will have no responsibility for purchase and sale of individual stocks. They will consult the broker-dealer and the mutual fund management company periodically and from time to time may

offer changes or additions to the investment options available to members. The plan provides for one of its savings funds to invest in short-term Government securities so that members who wish to freeze their investments in preparation for retirement or at a time when the stock market seems unusually risky, may have an alternative other than withdrawing from the plan.

9. The minimum contribution is set at $10 per biweekly pay period in order to avoid the administrative burden and expense of very small investments. The maximum contribution is 10 percent of basic salary. Internal Revenue regulations limit the maximum to 10 percent of gross compensation, but OCS and the Office of Finance feel that the basic salary standard will be much easier to administer. A further exception will permit a member who has contributed less than 10 percent of his basic salary to make additional contributions at a later date to bring his aggregate contributions up to the 10 percent limit for all the years in which he has been a member of the plan. This exception was made possible by a Revenue Ruling issued in May 1969, and the task force feels it is a desirable option to permit employees to put additional funds into this tax sheltered investment when their personal financial circumstances permit.

10. Normally, a member will withdraw his equity in the plan at the time he separates from the Agency. If he waits until separation to withdraw, the excess of the value of his equity over his contributions will be taxed as a long term capital gain. There is also a provision for partial or entire withdrawal of a member's equity while he is still employed. However, in such a case the increment in his investment will be taxed as ordinary income, and there will be a limitation on his right to again become a member of the plan. A member who needs or wishes to discontinue his periodic contributions may do so without withdrawing his equity and may reinstate his contributions at any time. The member may name his beneficiary and may elect distribution of his equity to himself or his beneficiary in a lump sum, in installments or in shares of a mutual fund in which the trust is invested or another mutual fund sponsored by the same investment adviser.

11. The plan also provides for the member to borrow against his equity under such terms as may be prescribed by the board of trustees. This is not a common privilege in such plans, but the task force feels that a member needing cash should be in a position to use his equity in the plan without suffering the penalties of premature withdrawal. Loans would not be made by the trust, but rather by a

bank, credit union, or other lender approved by the trustees. The task force has discussed this provision with the manager of the Northwest Federal Credit Union and the task force member who is a director of the Credit Union. They believe the Credit Union will be able to accommodate loan requirements under this provision and, therefore, there need be no security problem for any employee of the Agency who wishes to borrow against his equity.

Selection of Investments

12. The basic premise of the task force was that the investment responsibility of the task force and of the trustees should be limited to the selection of competent professional investment managers. In the case of mutual funds, the selection of a manager may automatically include the selection of a particular fund, but in no case would the trustees recommend or select individual investment securities. Accordingly, the task force met with officers of five investment specialists representing stockbrokers, trust companies, insurance companies, investment advisers, and mutual funds. Several of these companies made thoughtful presentations which were responsive to our needs and resulted in the decision to offer mutual funds as the initial investment medium. The task force and all of its advisers felt that either mutual funds or a managed portfolio of stocks and bonds were the only appropriate investment mediums for a plan of this kind, at least in the beginning. Mutual funds offer some advantages over the special portfolio. Some funds are available which are managed by organizations responsible for the investment of billions of dollars for mutual funds, institutions and individuals. Such organizations can afford the best investment management talent which is scarce and expensive. They also may have the best entree to the rest of the business and investment community which provides much of the information essential to productive investment. A large mutual fund family offers flexibility to the plan or individual who may wish to switch or expand his investment objectives. Funds have appeal to many people who have not had the time or inclination to invest in stocks. Quotations are printed daily in most newspapers, and the comparative performance of every fund is a matter of public record. Finally, they offer the most conclusive means of placing investment management in the hands of independent professionals rather than under the control of Agency employee trustees. A special portfolio supervised by a professional investment adviser also has some advantages and may be preferred by more sophisticated investors. The decision to start our plan with mutual funds does not preclude the later addition of a separate portfolio.

13. INA Security Corporation was selected as our broker-dealer (Attachment B), and after further consultation they recommended use of the Fidelity Group of Mutual Funds, managed by the Fidelity Management and Research Company of Boston (Attachment C). After spending a day with Fidelity officers, portfolio managers, and analysts, the task force concurred in INA's recommendation and selected the Fidelity Trend Fund and the Everest Fund as the investment mediums to be offered initially to employees (Attachments D and E).

14. The Fidelity Group, which was established in 1930, is well known and respected in the investment community. It supervises over four billion dollars' worth of investments for more than five hundred thousand investors through six mutual funds currently being offered to the public, five mutual funds not sold publicly, and through Fidelity Management and Research Company, a registered investment adviser serving individual and institutional clients (Attachment F). The six mutual funds currently offered provide a wide choice of investment objectives should the Agency plan wish to offer additional options. These funds may be exchanged for each other without commission charges and, therefore, will permit a retiring employee to take his equity in a fund not available in the plan but which may better meet his retirement needs. Fidelity can be expected to offer new mutual funds from time to time as their investment theories are proven through trial periods of private investment. The task force was impressed with the breadth and diversity of investment methods and theories among Fidelity's analysts and portfolio managers, the initiative and independence of the staff encouraged by the company, and the fact that there appeared to be many able and talented employees in all levels and age groups, promising continuity of good management.

15. The task force proposes that the Agency investment program initially offer the Fidelity Trend Fund and the Everest Fund, as well as the option of investment in short-term Government securities. Fidelity Trend is a large fund with the primary objective of capital appreciation. It invests mostly in common stocks of both established companies and smaller, less well known companies (Attachment G). Everest is a small and newer fund seeking modest but growing income plus capital appreciation through common stocks and convertible securities as well as investments in situations which cannot be effectively exploited by large funds (Attachment H). We believe these two mutual funds provide prudent investment management and opportunity for long-term capital appreciation and offer sufficiently contrasting investment objectives and methods to give the employee meaningful options.

Administration

16. The overall responsibility for day-to-day management of the Voluntary Investment Plan should be given to the Director of Personnel. This is consonant with present functions in the area of employee benefit programs. The details of accounting and record-keeping are being worked out by the Offices of Personnel and Finance. The methods used should follow the TVA system closely. The task force recommends the use of computer processing to assist in record-keeping. Indeed, there is no practical alternative other than the broker-dealer providing all services, which is not feasible because of security considerations. Initial costs will include 13 man months of programming and systems work, plus the man hours necessary to promote the plan, enroll participants, and establish the files. Continuing costs will include about six hours of computer processing a month and continuing part-time attention from various personnel in the Offices of Finance, Personnel, and Computer Services. Such part-time service will be complementary to the present duties of these personnel, and TVA has found it unnecessary to add any personnel or overtime work to administer its plan. Until the plan is in operation, we will not be certain that our experience will be the same; but with the possible exception of the start-up period, it seems unlikely that a substantial portion of any employee's time will be needed to manage the program.

Recommendation

17. The task force recommends that you approve the establishment of a voluntary employee savings and investment plan in the form set forth in the draft Trust and Agreement and Plan, dated 7 August 1969, attached hereto.

STAT

Deputy Chairman
Investment Plan Task Force

Attachments:
A-H

Approved For Release 2003/04/29 : CIA-RDP84-00780R003000070002-2

OGC 69-2330

CONCURRENCES:

SIGNED R. L. Bannerman — 17 DEC 1969

Deputy Director for Support — 17 Date

General Counsel — Date

/s/ — 18 Dec 69

Executive Director-Comptroller — Date

The recommendation in
paragraph 17 is approved

/s/ — 18 Dec 69

Director of Central Intelligence — Date

OGC:JDM:bg
Distribution:
Orig - Ch/Investment Plan Task Force, w/att A-H
1 - DDCI, w/o att
1 - ExDir-Compt, w/o att
1 - ER, w/o att
2 - DDS, w/o att
1 - Each Member of Task Force, w/att A-E

Approved For Release 2003/04/29 : CIA-RDP84-00780R003000070002-2

DRAFT
7 August 1969

TRUST AGREEMENT FOR ESTABLISHMENT OF A GOVERNMENT EMPLOYEES VOLUNTARY INVESTMENT PLAN

THIS AGREEMENT AND DECLARATION OF TRUST, made this _______ day of _______ 1969 by and between the Central Intelligence Agency, hereinafter referred to as "CIA", and the Board of Trustees of the Voluntary Investment Plan, hereinafter referred to as the "Board".

WITNESSETH:

1. The CIA hereby establishes, effective __________, a plan for savings and investment by certain of its employees in order to provide additional and more flexible retirement and related benefits for those employees who desire to participate in the plan. This plan shall be known as the "Voluntary Investment Plan", hereinafter referred to as the "Plan", and shall constitute an employees' pension trust, separate and apart from the CIA Retirement System and the Civil Service Retirement System.

2. The Plan shall be maintained and administered by a Board of Trustees who shall invest the money in the Plan and make payments to participants or their beneficiaries in accordance with the Terms

and Conditions of the Plan, hereinafter referred to as the "Terms and Conditions".

3. The Board shall consist of six employees appointed by the ~~Deputy~~ Director of Central Intelligence for terms of three years, except that the ~~Deputy~~ Director shall appoint two of the original trustees for terms of one year and two of them for terms of two years. The ~~Deputy~~ Director shall designate one of the trustees to be Chairman of the Board. The ~~Deputy~~ Director shall appoint successor trustees to fill interim vacancies, and they shall serve for the remainder of the terms of the trustees they succeed.

4. All expenses of this trust and the expenses of administering the Plan shall be paid by CIA but, to the extent that such expenses may not be paid by CIA, they shall be a charge against the Plan and shall be paid by it. Expenses relating to a particular savings fund of the Plan may be charged against such fund as if it were a separate trust.

5. CIA shall make deductions from the compensation of participants in the Plan in accordance with the Terms and Conditions and shall pay the same to the Board or its designees.

6. CIA may terminate the Plan at any time; and in that event, the Board will liquidate the assets of the Plan and will distribute the proceeds among the members and beneficiaries or will distribute the assets in kind as provided in Article 7 of the Terms and Conditions.

7. The Board accepts this Declaration of Trust and agrees to administer the trust in accordance with the provisions hereof.

8. This agreement may be amended by mutual consent of CIA and the Board, but no amendments may be made which will diminish the equity the participating member has theretofore acquired in the Plan.

IN WITNESS WHEREOF, CIA and the Board of Trustees have caused this agreement to be executed as of the day and year first above written.

BOARD OF TRUSTEES OF THE GOVERNMENT EMPLOYEES VOLUNTARY INVESTMENT PLAN	CENTRAL INTELLIGENCE AGENCY
____________________	____________________
Chairman	Richard Helms, Director

Approved and accepted by the undersigned who constitute in its entirety the Board of Trustees of the Government Employees Voluntary Investment Plan as of the date of this Trust Agreement:

____________________	____________________
____________________	____________________
____________________	____________________

TERMS AND CONDITIONS OF THE GOVERNMENT EMPLOYEES VOLUNTARY INVESTMENT PLAN

Article 1

Definitions

1. "Investment Plan" or "Plan" shall mean the Voluntary Investment Plan for certain employees of the Central Intelligence Agency as herein established.

2. "Member" shall mean an employee or former employee of the Central Intelligence Agency holding equity in the Investment Plan.

3. "Board" shall mean the Board of Trustees of the Investment Plan.

4. "Savings Fund" or "Fund" shall mean a segregated fund, the assets of which are invested exclusively in securities or deposits designated by members contributing to such fund.

5. The masculine pronoun wherever used shall include the feminine pronoun.

Terms and Conditions

Article 2

Eligibility

1. Any United States citizen employee of CIA whose cumulative Agency service, including employment on detail from another Government agency or military service, is at least three years and who is a participant in the Central Intelligence Agency Retirement System or the Civil Service Retirement System may elect to participate in the Investment Plan by filing with the Board the prescribed form. Such participation shall begin as soon as practicable after the Board's receipt of the form.

Terms and Conditions

Article 3

Savings Funds

1. The Board shall establish one or more Savings Funds to which the contributions made by the members shall be credited in accordance with their respective designations together with all income earned ~~or~~ gains or losses realized on the assets held in the respective Funds. The assets of each Fund will be segregated and invested in shares of a regulated investment company selected by the Board or in short term securities issued by the United States of America, or deposited in either interest bearing or non-interest bearing accounts in banks or savings and loan institutions insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

from changes in the value

2. Each Fund will be established with a stated investment purpose and investment medium which shall be made known to all members of the Plan and offered to them as an investment medium for a designated portion or all of their individual investment in the Plan. Each of the Funds shall constitute a separate trust and shall be used exclusively for payment of benefits to the members in the Fund or their beneficiaries.

Costs

Approved For Release 2003/04/29 : CIA-RDP84-00780R003000070002-2

Terms and Conditions

Article 4

Contributions

1. Each member may contribute to one or more of the Savings Funds through payroll deductions; provided that each contribution shall be in whole dollars and not less than $10 per biweekly payroll period for each Fund in which he participates; and provided that such payroll deductions in total may not exceed 10% of his basic salary for the pay period. However, a member may make contributions in excess of 10% of his basic salary for any pay period so long as the total of his contributions for all years does not exceed 10% of his aggregate basic compensation for all years in which he was a member of the Plan. The Board may require such excess contributions to be made by a method other than payroll deductions.

2. A member may from time to time modify, suspend or reinstate his contribution to the Investment Plan, change his current contribution from one Savings Fund to another, or transfer his previously acquired equity in one Fund to another, subject to such limitations as the Board may prescribe.

3. The equity which a member acquires in the assets of any Fund shall be expressed in units. If the Fund holds investment company shares, each unit shall be the equivalent of one share of the

investment company in which the Fund is invested. The Board will determine the equity which a member acquires by his contributions to a Fund holding investment company shares by dividing the participant's contributions by the cost of the shares purchased for the Fund at the time the member's contributions are used to purchase such shares, provided that such purchases shall be made not less often than monthly. If the Fund holds cash or securities other than investment company shares, each unit shall be valued at one dollar when the Fund is first established and thereafter the Board shall, not less frequently than once each month, determine the value of a unit by dividing the fair market value of the assets of such Fund by the total number of units. After withholding any expenses not paid by CIA, any dividends, interest or capital gains earned on the investments of any Fund will be prorated among the members' accounts on the basis of their respective equities in the Fund. The Board will maintain appropriate accounts showing the equity of each participant in each Fund.

ILLEGIB

Terms and Conditions

Article 5

Distribution of Equity

1. A member's equity in the Investment Plan normally shall be distributable at the time of the member's separation from the service of the Central Intelligence Agency. A member retiring from the Central Intelligence Agency who is entitled to an immediate annuity under the Civil Service Retirement System or the Central Intelligence Agency Retirement System and any member separating from the Central Intelligence Agency after his 50th birthday may, with the Board's approval, elect to defer distribution of his benefits and selection of the method of distribution to a date not later than his 66th birthday.

2. The member may select the method of distribution of his equity in the Plan which may be: (a) installment payments in such amount and over such period as may be requested by the member and as can be conveniently arranged by the Board at the member's expense through a custodian, (b) transfer to the member of shares of equivalent value in an investment company or companies in which any of the assets of the Plan are currently invested, subject to investment policies and practices then in effect, (c) a lump sum payment, or (d) any other method desired by the member and acceptable to the Board and not contrary to Internal Revenue Regulations.

3. On the death of a member, his equity in the Plan shall be paid to the beneficiary or beneficiaries designated by him to receive his equity in the Plan and if no beneficiary has been designated, to the executor or administrator of his estate. The member may select the method of distribution to his beneficiary or beneficiaries from any of the methods provided in paragraph 2 of Article 5; and, if the member has not selected a method of distribution, the beneficiary may do so. A beneficiary may, with the Board's approval, elect to defer distribution of his benefits to a date not more than one year after the death of the member.

4. A member whose current period of participation in the Plan is as much as one year, may, with the Board's approval, withdraw in a lump sum a portion or all of his equity in the Plan, provided that a partial withdrawal may not be less than $500. If the member withdraws a portion of his equity in the Plan, he shall not be permitted to make another partial withdrawal or further contributions thereto until one year after such withdrawal; if he withdraws his entire equity, his participation in the Plan shall cease and he shall not be eligible again to participate earlier than two years following such withdrawal.

5. The liquidation in whole or in part of a member's equity in the Plan in order to make a lump sum payment or transfer shall be made on the basis of the redemption value of the Funds in which he holds equity as of the next transaction for each Fund after the Board

receives the member's or beneficiary's election of a lump sum payment or transfer. However, where a member or beneficiary has elected a deferred distribution after the separation, retirement or death of the member, the assets shall be valued as of the transaction for each Fund next preceding the date of distribution. Arrangements for payment of the member's equity in installments through a custodian or by transfer of shares in an investment company shall be completed by the Board as soon as practicable and on the basis of values at the time such arrangements are effected. Any portion of a member's contributions to a Fund which at the time of liquidation of his equity therein is not reflected in his equity account shall be refunded to the member or his beneficiary, as the case may be.

Terms and Conditions

Article 6

Loans to Members

1. Upon application of a member, the Board may, in its sole discretion and under such terms as it may prescribe, authorize the use of the member's equity in the Investment Plan as collateral or security for a loan by the member from a bank, credit union, or other lender approved by it.

2. The Board may deposit with the lender, as collateral, securities or other assets of Funds in which the member has invested or may guaranty the loan on the basis of such assets, provided that no guaranty may obligate the Board for an amount in excess of the value of the member's assets in the Plan at any time such loan becomes due and payable.

3. The outstanding balance of a loan secured or guarantied by a member's equity in the Plan shall be a lien against his equity; and, in the event of his default on the loan or his death while a loan balance is outstanding, the Board shall discharge the member's indebtedness from any of the assets of the Plan to the extent of the member's equity in such assets.

Terms and Conditions

Article 7

Termination of the Investment Plan

CIA may terminate the Investment Plan at any time and, in that event, will either liquidate the assets of any or all of the Funds and distribute them among the members and beneficiaries or distribute them in kind. Distribution in cash or in kind will be in proportion to the respective equities of the members and beneficiaries in each Fund.

Terms and Conditions

Article 8

Amendments to Terms and Conditions

These Terms and Conditions may be amended by the Board from time to time, provided the Board gives at least 30 days' notice of the proposed amendment to CIA and to the members. CIA may, by notice in writing addressed to the Board within said 30 days, disapprove any such proposed amendment and, in that event, it shall not become effective. No such amendment may diminish the equity which a member has theretofore acquired in a Savings Fund.

Terms and Conditions

Article 9

General Provisions

1. The Board shall have the right to establish and carry out such rules, regulations and procedures as in its discretion may seem necessary or convenient to carry out, interpret, or implement the provisions of this Plan. No rules, regulations or procedures shall be adopted which are discriminatory under the provisions of the Internal Revenue Code.

2. Except in those cases where power is expressly reserved to, or to be shared with, the Central Intelligence Agency, the Board shall have full power and authority to determine all matters arising in the administration, interpretation, and application of the Plan; and the determination of any such matter by the Board shall be conclusive on all persons.

3. In all matters of administration of the Plan which require the Board's approval or otherwise involve its discretion, the Board shall act in a manner which will achieve, insofar as practicable, uniformity of treatment among all the members.

4. Applications for, or elections of, benefits, including the withdrawal of contributions, and designations or changes of beneficiary shall be made on such forms as shall be prescribed or authorized by the Board.

5. Any designation of beneficiary may be changed by the member at any time or from time to time during his life by signing and filing with the Board a written notification of change of beneficiary in such form as shall be required by the Board. The designation of a member's spouse as the beneficiary to receive any benefit payable upon the member's death shall be automatically revoked by a final decree of divorce dissolving their marriage. This provision shall not prevent the member from redesignating the divorced spouse as the beneficiary by filing a new designation form for that purpose.

6. To the extent permitted by law, the sale, transfer, anticipation, assignment, pledge, or any kind of encumbrance of trust assets or benefits will not be permitted or recognized, and neither trust assets nor benefits payable to any participant or beneficiary shall be subject to attachment or other legal process for or against a participant or beneficiary. The provisions of this paragraph shall not be applicable to the terms of any note or other instrument entered into pursuant to the provisions of Article 6 (Loans to Members) nor shall they be construed to restrict in any way the encumbrance of assets as collateral or security as therein contemplated.

7. Neither the Board, the Central Intelligence Agency, nor any officer, employee, or agent thereof, shall incur any liability on

account of any loss or decrease in the value of the assets of any of the Savings Funds in the Investment Plan, or in the amount of any member's equity therein, resulting from depreciation in the value of, or earnings on the assets held.

STAT [redacted]

We recommend the Fidelity Trend Fund, Inc. as the growth fund and the Puritan Fund, Inc. as the income fund. Enclosed are performance or "mountain" charts on these two funds. The information is contained in the prospectuses, but the xerox copies will give you a fairly complete summary of most of the material in the sales kit. Performance in the market place was an important factor in the selection of these two funds.

You are reminded, however, that the past performance of any fund should not be construed as an indication of future results. The period shown was one of generally rising security prices and dividends.

Significant in the Fidelity group of funds is the amount required to begin a withdrawal plan. Each of the funds in the group permits an owner to begin a periodic withdrawal program with only $5,000 in fund share holdings. To initiate a withdrawal plan, a retiree need only accumulate this nominal amount prior to commencement of pay-out from the fund by the fund.

Please also note that an exchange privilege exists between any of the funds in the group on the list. This is an important feature for a person who wishes to change investment objectives at retirement or beyond and for whom one of the other funds in the group would be a suitable investment.

As I told you on the telephone last week, Crosby would permit the trustees to buy funds at a discount depending on the aggregate amount of the investment by the trust without the necessity of filing with that organization a copy of the trust instrument. INA Security Corporation as selling broker could certify to them that a valid trust instrument exists and is on file here.

Our outside counsel, Stradley, Ronon, Stevens & Young, have reaffirmed that a thrift plan for government employees is permissible under the law, and that there would be no peculiar differences between such a plan and a corporate plan. At some appropriate point, it may be advisable for us to pass a draft of the trust instrument by them for review.

If you feel that it would be helpful, John Eppes and I could meet with you or your Committee for a more detailed discussion of this recommendation.

Thank you for the opportunity to be of service.

Sincerely,

John Penland

John T. Penland
Vice President

Encls.

John C. Eppes

Approved For Release 2003/04/29 : CIA-RDP84-00780R003000070002-2

19 June 1969

MEMORANDUM FOR: Members, Investment Task Force

SUBJECT: John Penland's Comments on Everest Fund Proposal

1. Penland telephoned me on 18 June to discuss our preference for the Everest Fund over the Puritan Fund. He said that he might have recommended Everest except that being a very new fund, small, and aggressively managed, he did not feel as comfortable with it for income oriented accounts as he did with Puritan. Personally, he does not think too much of a mainly income objective for a mutual fund but felt that we, like perhaps the majority of fiduciaries, thought it necessary to offer an income fund to balance our plan. He would be perfectly happy to see the plan offer nothing but the Fidelity Trend Fund.

2. I mentioned our feeling that we may have misled him in discussing our proposal to have an income fund. We believe that the objective of all members of the plan is long term growth, and the real option is between the means of achieving such growth. From this point of view, it would make more sense to offer as an alternative to the capital gains oriented fund another fund which seeks more income but which does it in a manner which is more likely to also achieve capital gains than is a strictly income oriented fund. I also said that another reason for offering a second fund of any kind was the thought that a voluntary plan should provide the member with some options.

3. In view of my explanation of our reasons for preferring Everest, Mr. Penland felt that he should not try to talk us out of it. He pointed out that the yield on Puritan probably would be a little better than that on Everest. Nevertheless, Puritan has out performed all but 29 growth funds in the last ten years, when a comparison is made of a $10,000 investment placed on a withdrawal plan, and has out performed all but 56 growth funds in the same period on the basis of change and net asset value of an original investment of $10,000. In other words,

Puritan Fund has been a good performer from the point of view of growth as well as in achieving income. These figures may not be quite as impressive as one might think since the number of funds which have been in existence for ten years is only a fraction of those in existence now.

4. Penland did point out that Everest states as its income objective a yield equal to that on the Standard and Poors Composite Index. In 1968 its yield of 3 percent compared to a 2.9 percent yield on the S&P. In the same year, Puritan's yield was about 4 percent. Mr. Penland feels that as long as Everest remains a small fund (perhaps under 150 million dollars) and the market remains the kind it has been for the last several years, Everest can be expected to out perform Puritan, while at the same time yielding nearly as much. It is the sort of fund that does not have as much down-side protection in a falling market such as today's.

5. Another factor that Penland normally would consider in recommending a fund is the make-up of the group which will participate in the plan. We never went into this with him; however, he assumes, probably correctly, that our participants, as compared to most Government or industry employees, will have higher average incomes, better educations, and be somewhat more sophisticated about investments. These factors probably favor offering Everest instead of Puritan. He also pointed out an advantage that we had not discussed; namely, that Everest will provide an option between a very large fund and a very small one which may be a meaningful option to many people.

6. It was agreed that this was a subject for discussion with Fidelity next week, and he has arranged for the portfolio managers of Fidelity Trend, Puritan, and Everest to be available. We will meet with William Kallenberg, President of the Crosby Corporation, and Harry Telian on the Tenth Floor of the State Street Building, 225 Franklin Street, Boston, between 9:30 and 10:00 a.m., Monday, 23 June. Mr. Penland will not be there but he will be in Washington Monday, 30 June, and I have made tentative arrangements for him to meet us that afternoon.

STAT

Assistant General Counsel

Approved For Release 2003/04/29 : CIA-RDP84-00780R003000070002-2

OFFICIAL USE ONLY

24 June 1969

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with Fidelity Group on Fund Selection

1. On 23 June, the undersigned, accompanied by Messrs. John
STAT [redacted] met with representatives of the Crosby Corporation (general distributors of the Fidelity Funds), and of the Fidelity Management and Research Company (the funds management) in Boston. The purpose was twofold: (1) to form an impression of the depth and competence of the Fidelity management, and (2) to try to firm up the choices of funds which will be incorporated in the plan for a voluntary supplementary retirement income. Personnel contacted are listed in an attachment. Mr. John Penland of INA arranged the meeting.

2. My general impression of the Fidelity Management was most favorable. They have a good deal of depth, and the management team is not concentrated at a single age group.

a. <u>Fidelity Trend Fund</u>, (assets, $1.3 billion) the growth fund tentatively selected, is operated by three senior managers -- Ross Sherbrooke (whom we did not meet), Richard Smith and Nathaniel Weiner. During its best performance period, it was managed by E. C. Johnson III, now Director of Funds, who undoubtedly keeps a close watch on it.

b. <u>Everest Fund</u>,(assets, $55 million) a small but rapidly growing fund, combines income and growth objectives. It is managed by James McManaway, a somewhat unorthodox but obviously capable middle-aged operator who has been with Fidelity Management about 15 years. He expects that Everest will outperform Puritan Fund over the next several years, and he may well be right. Everest's portfolio is predominately in lesser known convertibles (non-insurance company types of issues). It engages in arbitrage operations and has some common stocks with growth potential.

c. <u>Puritan Fund</u> (assets, $800 million) has been the traditional Fidelity income fund, although growth has been a secondary objective. Apparently the former manager of

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Puritan has retired and it is being run by Mr. Frank Parrish, who for five years was the number two. Parrish is not, in my view, a person likely to bring sparkle to Puritan; he seems a somewhat conservative individual.

3. All Fidelity Funds are overseen by an Investment Committee made up of the Johnsons, George Sullivan and others of top management. Reporting to the Investment Committee are the Research Department, concerned with the analysis of individual securities, and the Market Committee, which analyzes the market's performance to select appropriate buying periods for all securities. The Research Department has about 40 analysts, including some management personnel, and most senior personnel start in it.

STAT

[redacted]

Deputy Chairman
VESIP Task Force

Attachment:

All Task Force Members

STAT

[redacted]

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ATTACHMENT

Crosby Corporation (617) 423-6150

Mr. William G. Kallenberg, Executive Vice President
Mr. Harry B. Telian, Special Projects
Mr. ~~Edward Sipple (sp?)~~, Attorney EDWARD G. SIPPEL
Mr. Richard N. Bail ~~(sp?)~~, Independent legal counsel who handled legal aspects of the TVA plan.

GASTON, SNOW, MOTLEY AND HOLT
82 DEVONSHIRE ST.
BOSTON 02109
(617) CA 7-3180

Fidelity Management and Research Corporation

Mr. E. C. Johnson II, Chairman of the Board
Mr. D. G. Sullivan, President
Mr. E. C. Johnson III, Executive Vice President
Mr. George McKenzie, Director of Funds
Mr. Richard Smith } Fidelity Trend Fund
Mr. Nathaniel Weiner }
Mr. James C. McManaway, Manager, Everest Fund
Mr. Frank Parrish, Manager, Puritan Fund

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1. EX-Dir. will introduce

STAT 2. [redacted] — carry the briefing.

P.M.A.

RIBcPM
Conference Room

Fidelity Group of Mutual Funds

Fidelity Mgmt. + Research Co.

Fidelity Trend Fund - Capital appreciation

Everest Fund - Income + capital apprec.

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6 Trustees — appointed

Inter Rev Ser
Sec. + Exchange Comm.
4 Comm. - staff officers

? BOB -

Friday
briefing

Dec. 12

P&B

Number of personnel [illegible]
may be identified
right away. We can absorb.

Perhaps DCI should
appoint Inspector instead
of DDCI ?

2 DEC 1959

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